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In This Issue
NONFOODS BUSINESS
INSTORE BUSINESS
In Selected Editions Only

DPP
IS THIS THE YEAR?

Direct Product Profitability is one of the most sophisticated cost-accounting concepts available to grocery retailing. As a step-by-step method of applying all *direct* product costs to handling a product, it is possible to calculate the actual dollar profit that each item contributes to the store, department or category.

DPP is also one of the most misunderstood product performance measurement concepts. With renewed interest in DPP running at an all-time high, some perspective is needed on what DPP can and cannot contribute to better store productivity and company profitability.

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BPA ABP Association Of Business Publishers, Inc.

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SUPERMARKET BUSINESS

VOLUME 41
NUMBER 4
PART ONE
OF TWO PARTS

APRIL 1986

DPP: IS THIS THE YEAR?/KEN PARTCH — **Cover**

By now, almost everybody in the industry is familiar to some extent with the expression Direct Product Profitability. Many understand the concept. But many questions remain. SUPERMARKET BUSINESS asked the experts and users the hard questions. The answers follow in these pages.

LETTING GO: ABSENCE MAKES THE CHAIN GROW FASTER/KEVIN COUPE — **41**

Dewey Hill, owner of Hill's Foods Stores, a 33-unit chain in North and South Carolina, is preparing his business for new leadership. In the second article of an ongoing series, TURNING POINTS, Hill discusses his decision and some of the challenges he faces in carrying it out.

BUSTED LOOSE IN BATON ROUGE, THE REAL SUPERSTORE BATTLES FOR SHARE/BOB HUGHES & KEVIN COUPE — **45**

Over a year ago, in economically depressed Baton Rouge, a new store opened that has caused a furor in an area that is already heavily overstored. With such extras as dental and banking services—not to mention a staggering variety of food and nonfoods—The Real Superstore is giving its competitors a run for their customers.

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FRESH SEAFOOD: MORE RETAILERS ARE GETTING IN THE SWIM/PETER LEVITEN — **55**

Service seafood departments have come of age. And supermarket retailers are taking advantage of the consumer trends toward lighter eating habits and health awareness as a perfect opportunity to merchandise seafood.

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FOURTH ANNUAL OPERATIONS REPORT

INSTORE BAKERY & SERVICE DELI REVIEW

PREPARED BY ROBERT DIETRICH

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The combination of more outlets and higher sales per outlet activated the booster rockets and lifted sales of supermarket instore bakeries by 12.6 percent in 1985, to $4.11 billion.

As the rate of increase in both space and manpower assigned to instore lagged that of increase in average store sales, the department was able to chalk up some slight, but nonetheless welcome, improvements in productivity. Average weekly sales per square foot of space were up 1.6 percent, to $3.19, and average weekly sales per employee were up 2.8 percent, to $762.

A visitor to a typical instore after an absence of several years would notice some significant changes in both product mix and presentation.

To be sure, bread and rolls still dominate department sales, taking 40 cents out of every dollar. Also, a separate presentation of crusty breads is likely to be available, along with whole grains, sourdoughs and even vegetable breads.

Old breakfast favorites like Danish and doughnuts and other sweet goods now share their popularity with croissants, muffins and bagels—lines whose seemingly infinite varieties have still

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Service delis are proving to be the chameleons of today's supermarket, instinctively adapting themselves to almost any environment. Pint-sized independent supermarkets, like LaBonne's Epicure Market in Watertown, Conn., dedicate a substantial share of precious floor space to them, while at the other end of the spectrum, super warehouse stores like Cub and Winn Dixie's prototypical Table Supply allot them prime positions in the traffic flow.

Regardless of the store size or format in which they are found, however, service delis these days are the beneficiaries of re-thought product lines and a more pronounced merchandising bounce. Given this sales push from the store size counterpointing the purchase-pull from shoppers eager to trade money for time, the deli sector's good sales grades in 1985 should surprise no one.

How good? Average sales per unit rose by 8.4 percent, to $6,450 per week, as the number of operations rose by 4.2 percent, to 17,400. (Fifty-seven percent of supermarkets have a service deli today.) Overall sales vaulted to $5.83 billion, a more than respectable 12.8 percent increase.

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not staled the imaginations of suppliers.

As for presentation, the instore section is increasingly adopting and adapting the concept on which the basic supermarket is founded: self-service. The dual motivations are the need to control labor costs and the desire to stimulate impulse purchases.

Although some self-service was always available in bakeries in the form of prepackaged product (such as baked pies on display tables), the self-service movement has been energized by retailer experimentation with, and customer acceptance of, bulk self-service. Here the vanguard self-service roll bins have been supplemented by in-wall shelves of sweet goods, cookies, doughnuts, etc., often restocked from behind. Two-thirds of surveyed instore executives say they expect their operations to move toward more self-service; only 4 percent foresee movement toward more service.

(NOTE: The statistics presented in this section come from a mail survey of those responsible for directing instore bakeries at both the supermarket and warehouse level.)

The good news for total instore sales would be even better if the proportion of shoppers who buy from the section could be unstuck from the current one-in-four level.

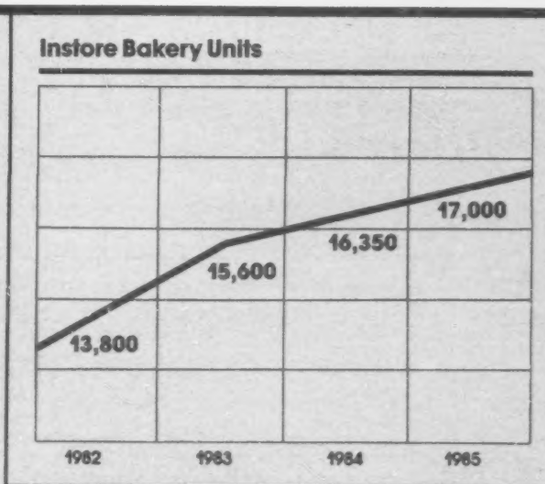
To that end, bakery executives are turning up the merchandising heat. In addition to offering an average of 4.8 price special promotions a week, instores are loading their merchandising muskets with a variety of ammunition ranging from in-ad coupons and two-for-one offers to more frequent and extensive demos and, in at least one case, early bird specials (10 percent off all doughnuts from 7 a.m. to 10 a.m.).

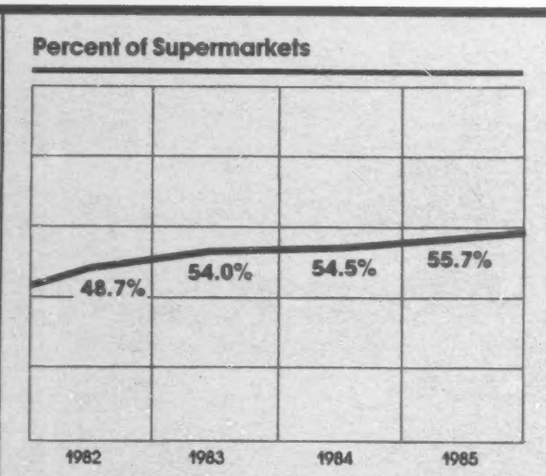
Regardless of the merchandising method of choice, instore executives are almost unanimous in beseeching their suppliers to lend a greater merchandising hand, be it to help with demos, more point-of-purchase (POP) materials or, you guessed it, merchandising allowances.

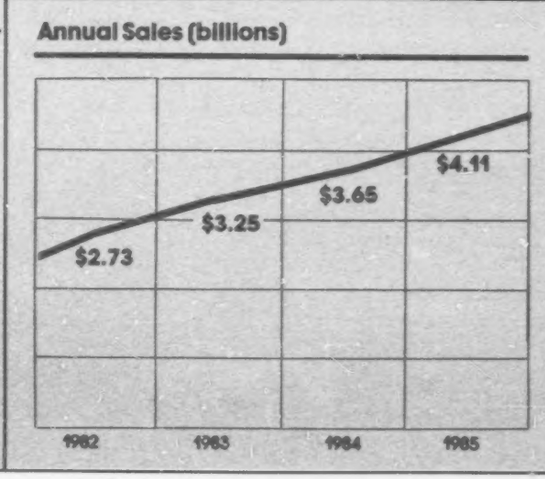
BAKERY/CENSUS

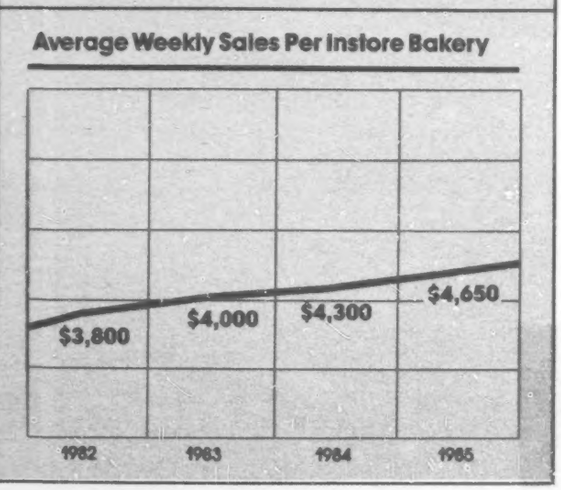
Being in the supermarket business is, increasingly, synonymous with being in the instore bakery business. In 1985, the number of instore installations rose by 650, or 4.0 percent, to 17,000. Helped along by an 8.1 percent increase in average department sales, the sector roared to over $4 billion in sales.

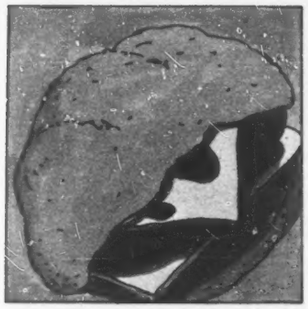
Sales of supermarket instore bakeries jumped the $4 billion hurdle in 1985 to ring up a yeasty $4.11 billion total. The double-digit (12.6 percent) surge of this relative newcomer contrasts sharply with the restrained sales pace that envelops the rest of the supermarket in these post-inflationary times. Two factors continue to support overall sector growth: (1) Expansion in the number of departments both through new store openings and remodels, and (2) a fattening in average departmental sales by 8.1 percent, to $4,650 per week.











BAKERY/SALES, MARGINS & PRODUCT MIX

While new product introductions have long enlivened shopper passage through the dry grocery aisles of the supermarket, the spice they can add to the instore section is only recently being acknowledged. Bagels, croissants and muffins continue on a roll, along with new renderings of old-favorite cookies and breads.

That instores bring in only $2.70 out of every $100 in supermarkets that have them ignores their prominence as a key part of the "positioning" statement. To make sure that statement is kept both current and clear, bakery directors constantly fine-tune their product mix. While breads and rolls remain the keystone 40 percent of bakery sales, new varieties of croissants, muffins and bagels continue to come onstream. What's new in bread itself is often what's oldest, or at least most traditional—European-style crusty breads. Even as product mix is edited, however, bakers are able to maintain their gross margins on the sunny side of 50 percent.

Average Weekly Sales

Mean **$4,650** Median **$4,050**

$2,000 or less	7%
$2,001–$3,000	18
$3,001–$4,000	18
$4,001–$5,000	21
$5,001–$6,000	22
$6,001–$8,000	8
Over $8,000	6
Total	100%

Change in Dollar Sales

(1985 vs. 1984)

Higher	88%
No change	9
Lower	3
Total	100%

Share of Total Store Sales

Mean **2.7%** Median **2.6%**

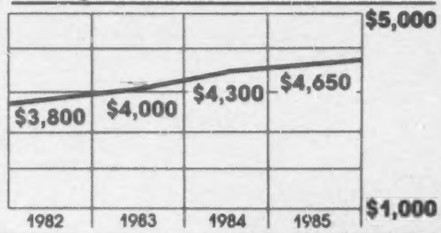
% of Total Sales	
Less than 2.0%	18%
2.0–2.9	40
3.0–3.9	28
4.0 or more	14
Total	100%

Change in Share of Total Store Sales

	'85 vs. '84	'86 vs. '85*
Increased share	76%	75%
No change	17	21
Decreased share	7	4
Total	100%	100%

*Estimate

Average Weekly Sales



Gross Margin

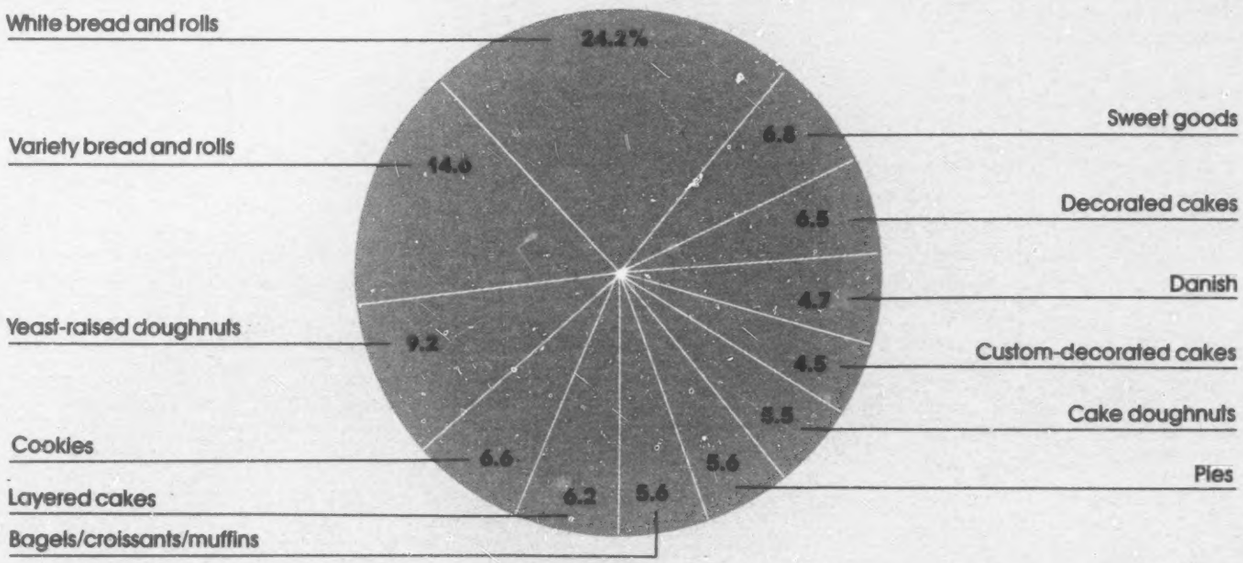
Mean	52.6%
Median	52.0%
Less than 40%	7%
40–49	29
50–59	39
60 or more	25
Total	100%

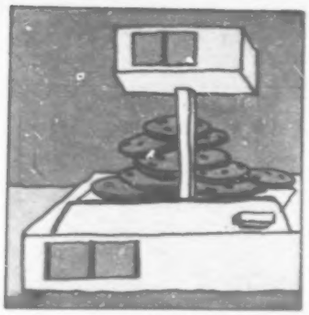
Bakery Items/Lines Most Frequently Added or Increased

—Croissants
—Soft or gourmet cookies
—Muffins
—Crusty breads
—Bagels
—Variety/specialty breads

Portioning Out the Instore Bakery Sales Dollar

Share of Sales





BAKERY/SPACE, LOCATION & EQUIPMENT

Instore bakeries can be said to have large appetites of their own—for store space, for capital investment in equipment and for the spotlit lead-off location in the traffic flow. But few retailers are prone to skimp when it's a question of funding a section capable of summarizing a store's positioning.

Are store planners willing to allocate, on average, 4.8 percent of their total space to a department that realizes only 2.7 percent of total sales? Increasingly, the answer is an unhesitating yes. The relatively tepid average weekly sales per square foot of $3.19 would be more than doubled if the necessarily extensive space allocated to prep areas were subtracted from the equation. Designers, moreover, are letting the prep area do some "selling" itself by building in maximum exposure of busy bakers to passing shoppers rather than walling them off.

Size of Department

Square Feet of Space	
Mean	1,460 Square Feet
Median	1,350 Square Feet

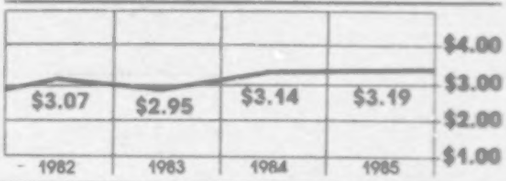
Square Feet	
750 or less	11%
751–1000	16
1001–1500	38
1501–2000	23
Over 2000	12
Total	100%

Share of Total Store Space	
Mean	4.8%
Median	4.3%

Percent Share	
2.5 or less	19%
2.6–5.0	44
5.1–7.5	29
Over 7.5	8
Total	100%

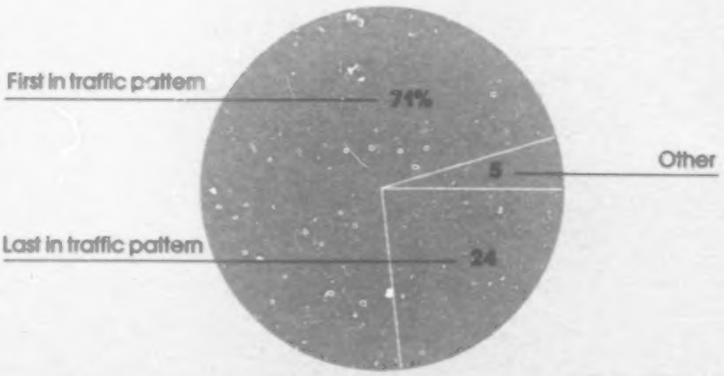
Average Weekly Sales Per Square Foot of Space	
Mean	$3.19
Under $2.50	25%
$2.51–$5.00	58
Over $5.00	17
Total	100%

Average Weekly Sales Per Square Foot of Space



In many new stores, produce has been forced to cede its traditional lead-off position to the instore bakery, which delivers a first impression to customers of both freshness and service. (Contrarians who argue that shoppers are loathe to have a lead-off purchase of, say, eclairs crushed by a subsequent purchase of a six-pack of beer remain in the minority.) Arguments for and against joint delibake operations also continue to be unresolved, with about four stores in 10 adopting the concept.

Preferred Location for Bakery

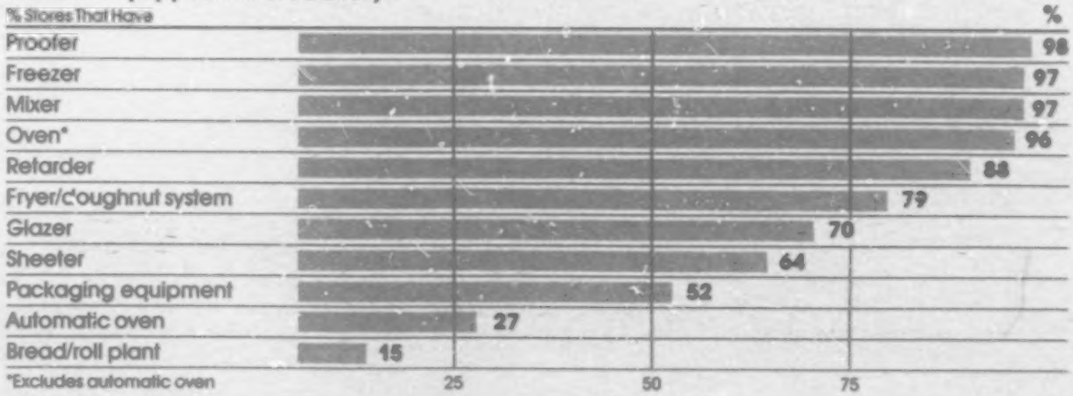


The Delibake Concept

Stores Combining Delis and Bakeries into a Joint Delibake Department

Joint delibake	38%
Separate departments	62
Total	100%

The Well-Equipped Instore Bakery



*Excludes automatic oven

BAKERY/LABOR & SERVICE

The acknowledged leader in labor intensity in today's supermarket, the instore bakery continues to move toward more self-service, both packaged and (where not constricted by local regulations) bulk. The six (full-time equivalent) employees in the typical installation average $762 each in weekly sales.

The beachhead seized by self-service continues to be widened, as bakery directors attempt both to control their labor costs and to maximize impulse purchases. Labor continues to account for one-third of departmental sales. A strong selling ally to that labor is self-service merchandising equipment to handle both bulk and prepackaged self-service product. Many new operations employ custom-designed self-service fixtures to make sure the product gets a compatible selling environment. With two out of three bakery executives saying their bakeries will probably move to even more self-service in the future, such fixturing is bound to continue to evolve and improve in design.

Number of Employees

Full Time	3.3
Part Time	5.6
Full Time Equivalent*	6.1

Full-Time Equivalent Employees

1–2	5%
3–4	27
5–6	39
7–9	19
10 or more	10
Total	100%

*2 part-time = 1 full-time employee

How Much for Labor

(Labor as a Percent of Instore Bakery Sales)

Mean	32.8%
Median	32.0%
Under 26%	12%
26–30	25
31–35	30
36–40	22
Over 40	11
Total	100%

Cake Decorating

% of Stores Offering

Offer	76%
Do not offer	24%

Time for Prep and Service

Breakdown of Labor Hours

Customer service	40%
Other (incl. prep)	60
Total	100%

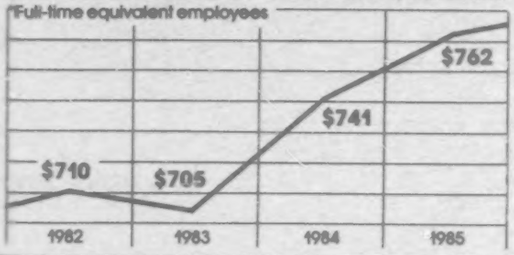
Average Weekly Sales Per Employee*

Mean	$762
$500 or less	16%
$501–$750	27
$751–$1,000	40
Over $1,000	17
Total	100%

*Full-time equivalent employees

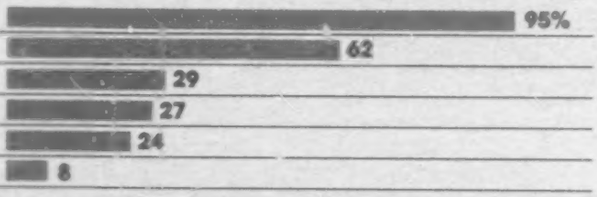
Average Weekly Sales Per Employee*

*Full-time equivalent employees



Self-Service Equipment

% Stores That Have


Display tables for packaged self-service 95%
Self-service racks (or shelves) without doors 62
Self-service refrigerated cases 29
Roll bins with tongs for self-service 27
Free-standing self-service racks (on wheels) 24
Self-service racks with glass doors 8

Service vs. Self-Service

% of Stores Offering*

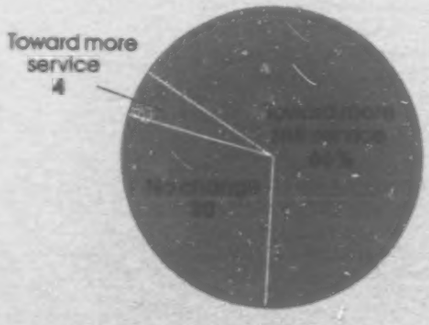
Service	84%
Self-service (packaged)	100
Self-service (bulk)	27

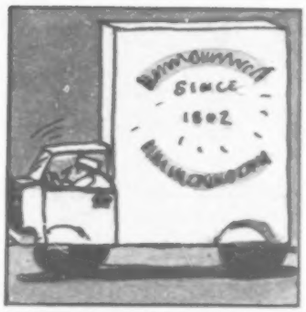
*NOTE: Includes multiple answers

% of Instore Bakery Sales

Trends in Service

Direction Instore Directors Expect Their Operations to Move





BAKERY/PRODUCTION & SUPPLY

Half of instores describe themselves as primarily bake-off operations, with 18 percent scratch or mix and the balance combination. Most are willing to borrow from the other disciplines to maximize quality of a particular line. Supply routes frequently run through the store's grocery warehouse.

While "pure" scratch operations may be the rara avis of the instore aviary, their history suggests they will remain a minority, but not endangered, species. The lure of bake-off—quality consistency and labor cost control—is abetted by the ability of major suppliers to convert their R&D dollars into new lines and items with which bakers can tempt shoppers. A good example is cookies, where new bake-off varieties including gourmet and chewy have helped instores not only to resist the attacks of mega-buck-ad budget commercial cookie makers but also to expand their own cookie sales appreciably.

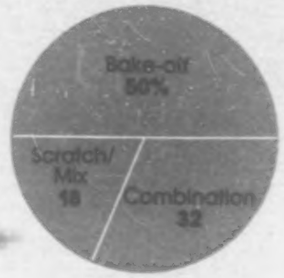
Methods of Production*

*NOTE: Includes multiple answers

	Bake-off	Mix	Scratch
Bread and rolls	75%	41%	24%
Yeast-raised doughnuts	67	60	8
Cake doughnuts	32	77	10
Sweet goods	80	38	22
Cookies	77	22	40
Pies	91	10	15
Layered cakes	51	60	20
Croissants	97	7	13
Brownies	40	52	24
Bagels	92	8	8
Muffins	37	70	30

Major Method of Production

% Using



Suppliers to Instore Bakeries

% Using*

	Bakery Distributor/ Supplier	Grocery Wholesaler	Ingredients Manufacturer	Wholesaler Baker
Bake-off	55%	52%	18%	11%
Mix	60	30	46	9
Scratch	73	42	33	6

*NOTE: Includes multiple answers

Warehouse vs. Direct Delivery

% of Baking Ingredients Supplied

Through warehouse	65%
Direct to stores	35
Total	100%

BAKERY/MERCHANDISING & CUSTOMERS

Three out of four shoppers typically pass the instore bakery by without making a purchase. In addition to trying to add more merchandising spark to their own efforts, instore executives are looking to their suppliers to provide them with more POP materials, more help with demos and—above all—more ideas.

Having been awarded such a prominent position in the store's traffic flow doesn't seem to have been much help to the instore bakery in translating passers into buyers. On average, only one shopper in four bothers to make a purchase from the bakery. As the service factor (intentionally) ebbs, the slack has evidently not been taken up by merchandising programs of traffic-stopping caliber, even with the supposed lure of almost five price promos a week. Bakery directors who want to snare more of those passers wage a fight for a bigger share of the weekly store ad while escalating their demo programs.

How Supermarket Customers Spend

Percent Who Shop the Instore Bakery

Mean **27.8%** Median **25.0%**

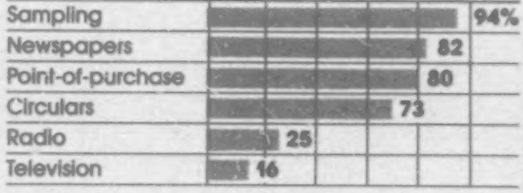
How Much They Spend

Mean **$1.34** Median **$1.22**

Under $1.00	30%
$1.01–$1.50	42
Over $1.50	28
Total	100%

Advertising and Promotion Sell Instore Bakery

% Using



Weekly Price Special Promotions

Mean	4.8
1 or 2	12%
3 or 4	31
5 or 6	42
7 or more	15
Total	100%

SERVICE DELI REVIEW

Continued from page 4A

The product mix of the deli is evolving both to refine presentations of the staple three (sliced meats, cheese and salads) and to welcome entire new lines. For assured quality, shoppers have been willing to pay $8 a pound or more for high-grade seafood salads, a sale that would take almost 15 pounds of commodity-type price-special salads to equal in dollar gross.

As for the new, pizza operations continue to attract new adherents.

The introduction of more self-service into the service deli section may seem a contradiction in terms, but it has a place as cases are set aside for prepackaged sandwiches, entrees, salads and desserts. With custom fixturing and constant restocking (as, for example, in the sleek self-service sandwich fixture in the new Randall's Flagship in Houston), self-service can enhance the deli department's image. Less fastidious operations unfortunately too often sponsor self-service sections that resemble culinary toxic waste dumps full of stale leftovers.

The turnup in merchandising voltage is evident everywhere, from store ads to POP efforts. Delis offer an average of 8.6 price specials a week, with sliced meats getting the most. But operators aren't counting on price appeal to pull the wagon alone. More effort is being put into imaginative merchandising. Deli operators who completed INSTORE BUSINESS's annual survey questionnaire indicate that they're looking to their suppliers to increase their flow of POP materials, demo opportunities and even training for store employees.

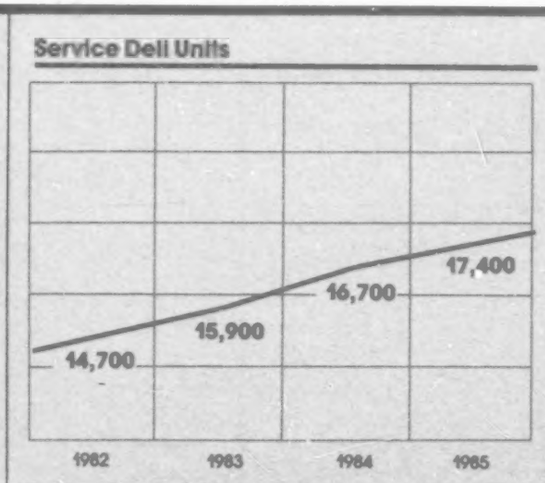
(NOTE: The statistics presented in this section come from a mail survey of those responsible for directing service delis at both the supermarket and warehouse level.)

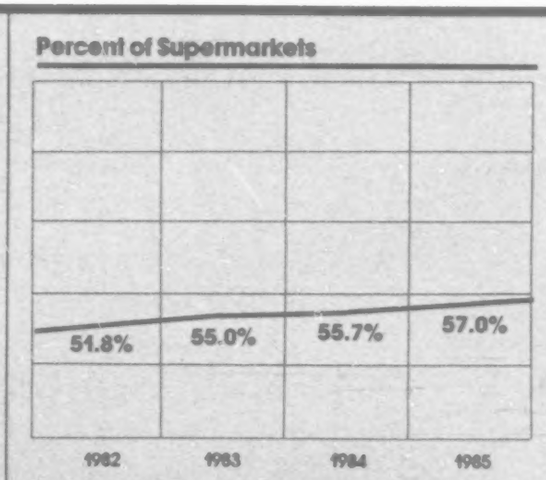
Delis are trying to counter competition from the eating-away-from-home sector with a variety of stratagems ranging from party platter programs to take-home-and-microwave entrees. Many operators observe that their biggest promotional opportunity of the year has become the Super Bowl—the day when they're sure their customers are eating at home.

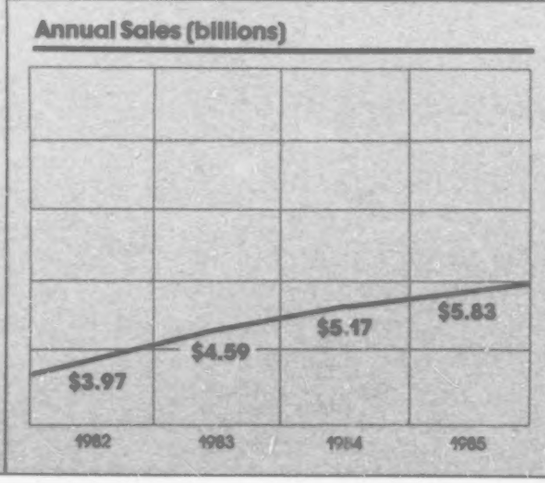
DELI/CENSUS

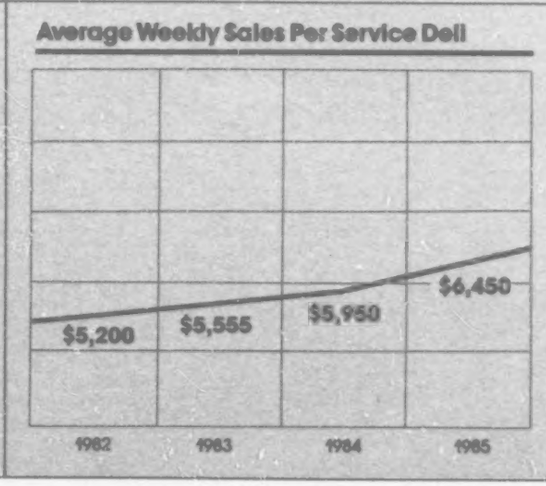
As the supermarket's not-so-secret weapon against attacks on the nation's food dollar by fast-food predators, service delis continue to grow in effectiveness while fine-tuning their tactics. Last year, they showed their mettle with an overall sales increase of 12.8 percent, to $5.83 billion.

In most sections of the supermarket, shoppers can buy food. But in the service deli they are increasingly attracted to the availability of another increasingly coveted commodity—time. Small wonder, then, that in a year when overall store sales remained basically flat, the average service deli installation registered an increase in sales of 8.4 percent, to $6,450 per week. With added help from a net increase of 700 units, to 17,400, sales for the nation's service deli climbed an impressive 12.8 percent to $5.83 billion.









DELI/SALES, MARGINS & PRODUCT MIX

Accounting for about four out of 100 sales dollars in the 57 percent of supermarkets that have them, service delis continue to retail staple cold cuts, cheese and salad selections, while experimenting with additions such as pizza and formal sandwich programs.

The traditional trio—sliced meats, cheeses and salads—still dominates the service deli, accounting for seven out of 10 sales dollars. Even such staples, however, are subject to innovation. Salad selections are being upgraded, with prices and presentation going in the same direction. Brand-name quality is stressed in cold cuts, as the shaved concept continues to attract new supporters. And selections of specialty cheeses are being broadened, often in free-standing sections of their own that also accommodate imported crackers and pâtés and other upscale fare.

Average Weekly Sales

Mean **$6,450** Median **$6,050**

$4,000 or less	19%
$4,001–$6,000	28
$6,001–$8,000	24
$8,001–$10,000	22
Over $10,000	7
Total	100%

Change in Dollar Sales

(1985 vs. 1984)

Higher	88%
No change	8
Lower	4
Total	100%

Share of Total Store Sales

Mean **3.9%** Median **3.8%**

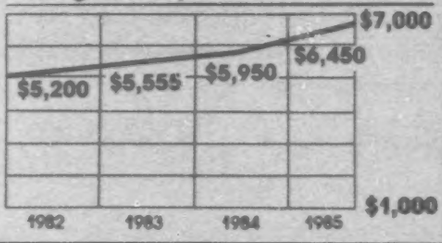
% of Total Sales	
Less than 3.0%	18%
3.0–3.9	32
4.0–4.9	25
5.0 or more	25
Total	100%

Change in Share of Total Store Sales

	'85 vs. '84	'86 vs. '85*
Increased share	86%	71%
No change	7	25
Decreased share	7	4
Total	100%	100%

*Estimate

Average Weekly Sales



Gross Margin

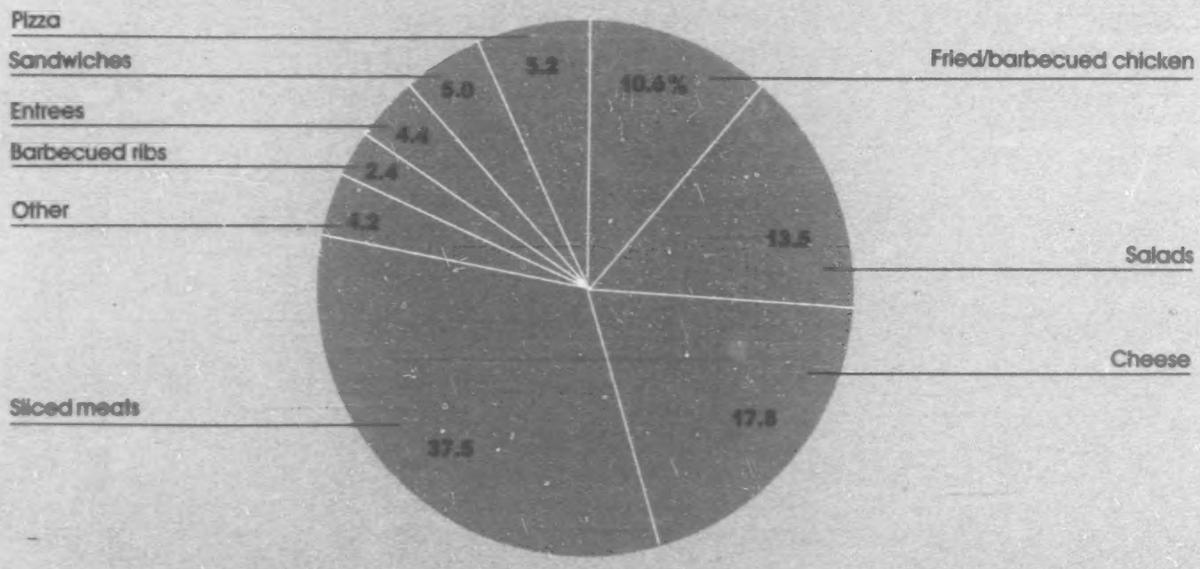
Mean	38.5%
Median	40.0%
Less than 35%	17%
35–39	28
40–44	45
45 or more	10
Total	100%

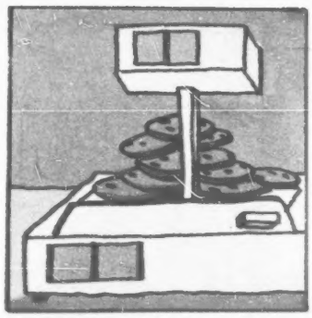
Service Deli Items/ Lines Most Frequently Added or Increased

—Pizza
—Specialty cheeses
—Upgraded salads
—Hot entrees
—Soup
—Chicken

Portioning Out the Service Deli Sales Dollar

Share of Sales





DELI/SPACE, LOCATION & EQUIPMENT

The signature of the up-market deli of the '80s may well be the magenta reflection of neon off the Porsche-like facade of a European-style display case. But even less trendy operations are busy making every foot of floor space pull its weight with labor-friendly prep equipment.

Mixing more up-price elements into their departmental offerings, deli directors have been able to push their weekly sales per square foot of space to an average $6.61, up by 25 percent in just three years. Averaging under 1,000 square feet of space, service delis contribute 3.9 percent of overall sales, while occupying only 3.5 percent of store space. One deli in three claims average weekly sales in excess of $10 a foot.

While a bare majority of deli directors like to see their department in the lead-off position in store traffic, 18 percent vote for last, and another 25 percent eschew both first and last, often citing a preference for the back wall or one of the rear corners. Wherever, the section is likely to exhibit a panoply of equipment for prep work. There is a schism, however, in opinion over whether the output of that prep work should be displayed in European-style or traditional casing. Euro-advocates often argue that their upgraded product mix merits a compatible setting.

Size of Department

Square Feet of Space

Mean	975 Square Feet
Median	900 Square Feet

Square Feet	
500 or less	28%
501–750	14
751–1000	20
1001–1500	17
1501–2000	17
Over 2000	4
Total	100%

Share of Total Store Space

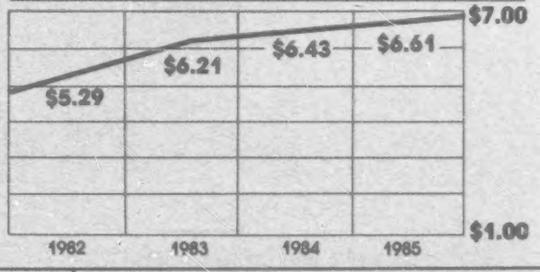
Mean	3.5%
Median	2.9%

Percent Share	
1.0–2.5	41%
2.6–5.0	36
Over 5.0	23
Total	100%

Average Weekly Sales Per Square Foot of Space

Mean	$6.61
Under $5.00	38%
$5.01–$10.00	27
$10.01–$20.00	20
Over $20.00	15
Total	100%

Average Weekly Sales Per Square Foot of Space



The Deilbake Concept

Stores Combining Delis and Bakeries into a Joint Deilbake Department

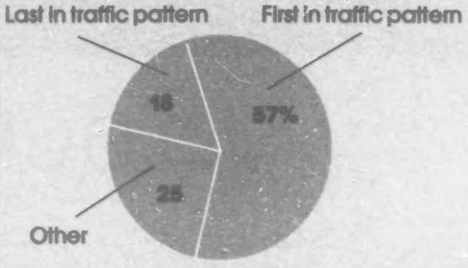
Joint Deilbake	38%
Separate departments	62
Total	100%

Popularity of Display Casing Styles

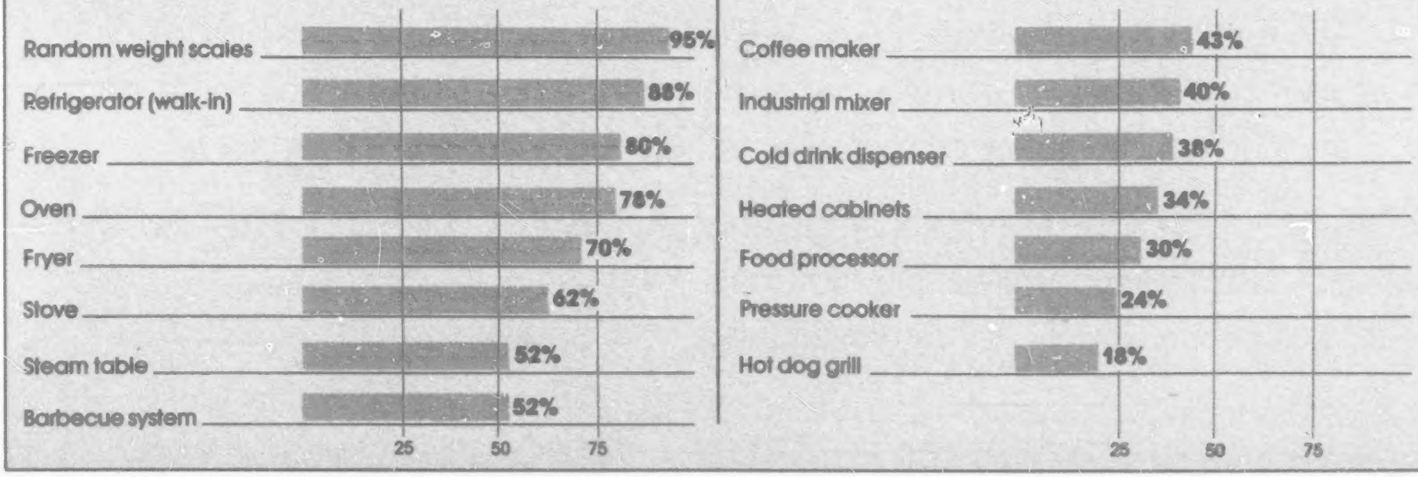
% Likely to Use in Upcoming Installations

New European-style casing	45%
Traditional casing	45
Both	10
Total	100%

Preferred Location for Service Deli



The Well-Equipped Service Deli % Stores That Have



DELI/LABOR & SERVICE

From behind the average service deli counter, "Next please" rings out from 2.2 full-time and 6.8 part-time employees. For customers who don't want to wait their turn to be next, however, deli departments are increasing self-service selections of sandwiches, entrees, salads and desserts.

The equivalent of one in five service deli sales dollars is allocated to departmental labor. Much of that labor is part time, with three part timers backing up every full timer on average. While part-time help abets flexibility in scheduling, some deli directors decry the difficulty of recruiting, training and maintaining standards for part timers. In an effort to trim labor costs and increase impulse purchases, many deli operations are expanding special self-service sections. When poorly maintained, rotated and signed, however (as is often the case), these self-service cases can erode the deli's hard-won reputation for freshness and service.

Number of Employees

Full Time	2.2
Part Time	6.8
Full Time Equivalent*	5.6

Full-Time Equivalent Employees

Less than 3	2%
3–4	48
5–6	30
7–9	13
10 or more	7
Total	100%

*2 part-time = 1 full-time employee

How Much for Labor

(Labor as a Percent of Service Deli Sales)

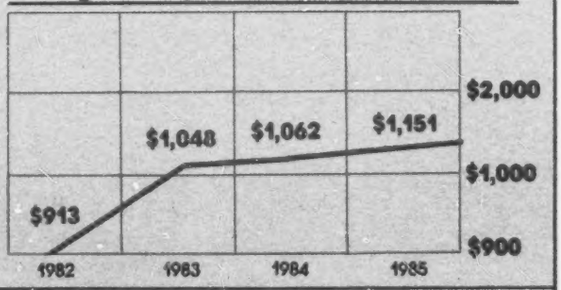
Mean	20.9%
Median	20.0%
10–15%	26%
16–20	25
21–25	32
26–30	14
Over 30	3
Total	100%

Average Weekly Sales Per Employee*

Mean	$1,151
$750 or less	15%
$751–$1,000	21
$1,001–$1,500	35
$1,501–$2,000	19
Over $2,000	10
Total	100%

*Full-time equivalent employees

Average Weekly Sales Per Employee



Special Area for Consuming Foods/Drink From Deli On Premises

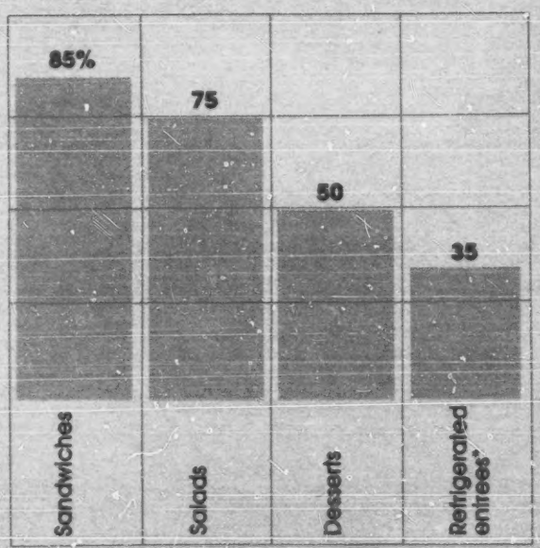
% Stores Offering	
Have facilities	27%
No facilities	73%
Total	100%

Time for Prep and Service

Breakdown of Labor Hours	
Customer service	70%
Other (incl. prep)	30
Total	100%

Offerings of Prepackaged Products in Self-Service Cases

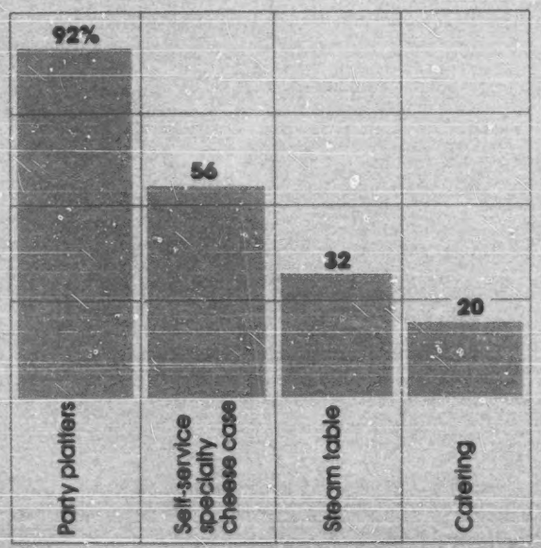
% Stores Offering



*To be heated/microwaved at home

Special Services

% Stores Offering



DELI/PRODUCTION & SUPPLY

The make-it-from-scratch and buy-it-from-outside apologists may never reconcile, but both sides increasingly realize that it pays to be flexible. Suppliers continue to upgrade their recipes to appeal to more sophisticated tastes, while once-pure scratch operations look outside for help with fastest movers.

When asked what actions their suppliers could take to increase the success of their service deli customers, several operators recommended that suppliers improve their "understanding" of the service deli business. A western chain representative sums up the perceived problem: "They've got to take more interest in problems at the store level. They are spread out too thin!" Four in 10 stores prepare at least some of their salads from scratch, usually as a supplement to orders from outside salad suppliers.

Commissaries

% Companies Having Company-Operated Commissary From Which Stores Order

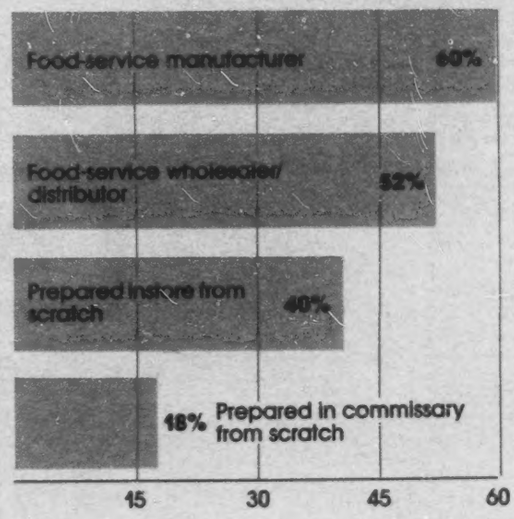
Have commissary	20%
Do not have commissary	80
Total	100%

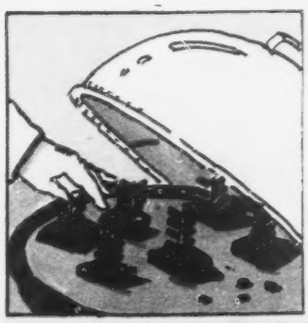
Main Function of Commissary

Preparation from scratch ingredients	50%
Ordering from food-service suppliers	50
Total	100%

Sources of Service Deli Salads

% Stores Using





DELI/MERCHANDISING & CUSTOMERS

The theory is that weekly price promotions will hook additional customers who will then buy something besides bargain baloney. As customer count stays stalled at about one in five store shoppers and average transaction at slightly over $3, the theory seems to have leaks.

The price club continues to be aggressively wielded by supermarket service delis, with the average operation offering 8.6 price promos each week. The availability of these specials is ballyhooed to shoppers both by consumer media, as part of the weekly store ad, and by instore enticements including demos and point-of-purchase (POP) materials. Operators feel that suppliers could do a great deal more to help delis with their merchandising. Specifically, they want more demos and more POP materials. Until that happens, the four in five shoppers who pass by without making a purchase are unlikely to stop at the service deli.

How Customers Spend

Percent Who Shop the Deli	
Mean 20.2%	Median 19.0%

How Much They Spend	
Mean $3.25	Median $3.00
Under $2.00	20%
$2.01–$3.00	33
$3.01–$4.00	37
Over $4.00	10
Total	100%

Advertising and Promotion Sell Service Deli

	% Using
Sampling	89%
Newspapers	85
Point-of-purchase	83
Circulars	69
Radio	23
Television	19

Weekly Price Special Promotions

Average Number of Price Specials Offered Each Week

Sliced meats	3.5
Cheeses	2.2
Salads	1.5
Other	1.4
Total	8.6

HOW PROFITABLE ARE HEALTH & BEAUTY AIDS?

A STAFF REPORT

The answer to the question of how profitable health and beauty aids (HBA) are might be another question: What kind of deals and allowances do I get? It's not as simple as that, of course, but a NONFOODS BUSINESS survey does point out that for many grocery warehouses and service merchandisers, the best deals sometimes lead to the lowest profits.

NONFOODS BUSINESS asked retailers (chains, co-ops, voluntaries and unaffiliateds) and service merchandisers to rank, on a scale of one to seven, HBA in three areas: profitability, adequacy of deals and allowances and whether HBA products respond well to special display. The HBA categories were: diet aids, cosmetics, baby products, first aid, toothpaste, sanitary napkins/tampons, analgesics, hair care products, deodorant, razor blades (including disposables), vitamins, cough/cold preparations, mouthwashes, antacids, laxatives and face/body creams/lotions.

The least profitable items for both grocery warehouses and service merchandisers are mouthwashes, sanitary napkins/tampons and toothpaste. Analgesics are comparatively low-profit winners also. In ranking the adequacy of deals and allowances, retailers supplied by grocery warehouses rank toothpaste, razor blades (including disposables) and cough and cold preparations as the best. Service merchandisers rank toothpaste, cough/cold preparations and analgesics as having the best deals and allowances.

According to the NFB survey, retailers supplied by a grocery warehouse consider the most profitable items to be, in order, cosmetics, vitamins, hair care and first aid products. For service merchandisers, the most profitable are hair care, vitamins, first aid and cosmetics.

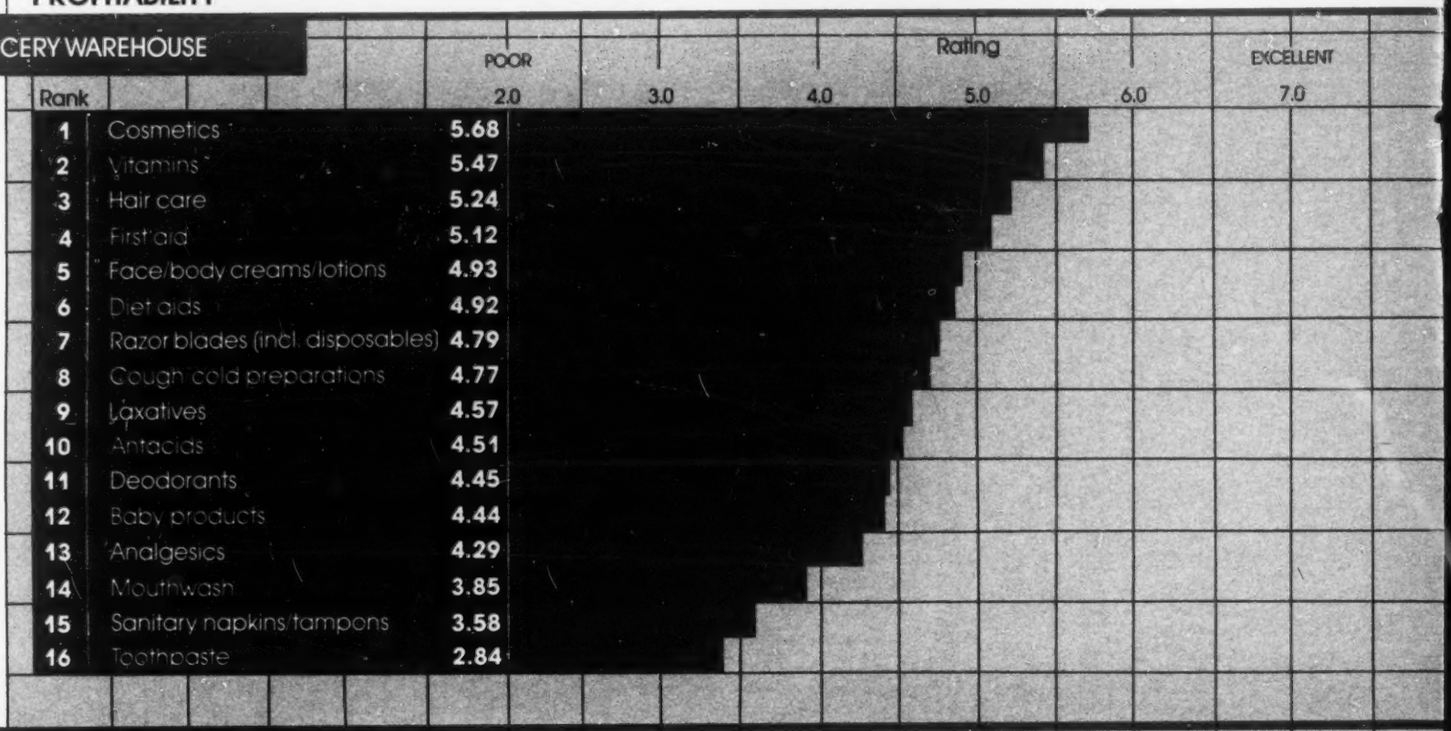
There is some correlation between deals and allowances and how well an item responds to special display. Toothpaste, deodorants, cough/cold preparations and razor blades are all ranked highly on both, while laxatives, diet aids and cosmetics

Continued on page 70

HEALTH & BEAUTY AIDS

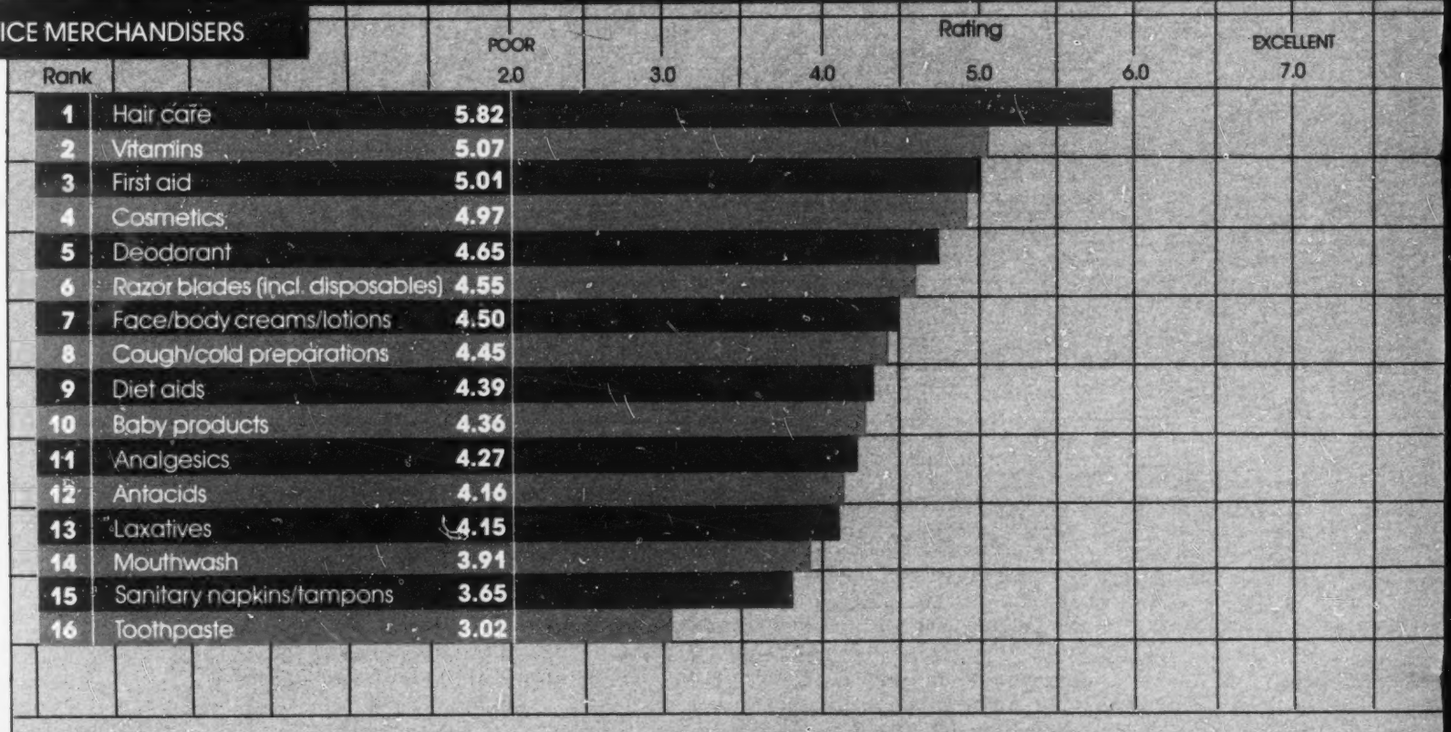
PROFITABILITY

GROCERY WAREHOUSE



Rank		
1	Cosmetics	5.68
2	Vitamins	5.47
3	Hair care	5.24
4	First aid	5.12
5	Face/body creams/lotions	4.93
6	Diet aids	4.92
7	Razor blades (incl. disposables)	4.79
8	Cough/cold preparations	4.77
9	Laxatives	4.57
10	Antacids	4.51
11	Deodorants	4.45
12	Baby products	4.44
13	Analgesics	4.29
14	Mouthwash	3.85
15	Sanitary napkins/tampons	3.58
16	Toothpaste	2.84

SERVICE MERCHANDISERS

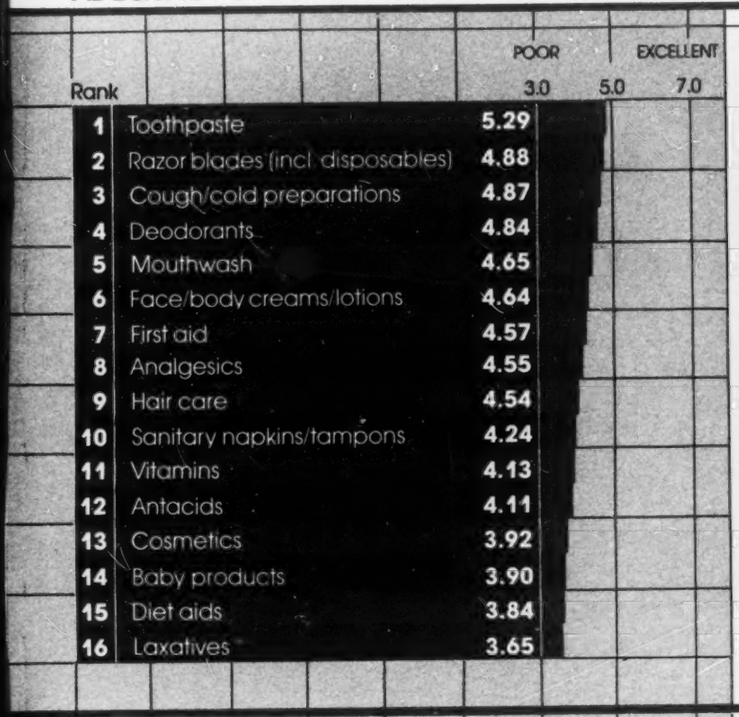


Rank		
1	Hair care	5.82
2	Vitamins	5.07
3	First aid	5.01
4	Cosmetics	4.97
5	Deodorant	4.65
6	Razor blades (incl. disposables)	4.55
7	Face/body creams/lotions	4.50
8	Cough/cold preparations	4.45
9	Diet aids	4.39
10	Baby products	4.36
11	Analgesics	4.27
12	Antacids	4.16
13	Laxatives	4.15
14	Mouthwash	3.91
15	Sanitary napkins/tampons	3.65
16	Toothpaste	3.02

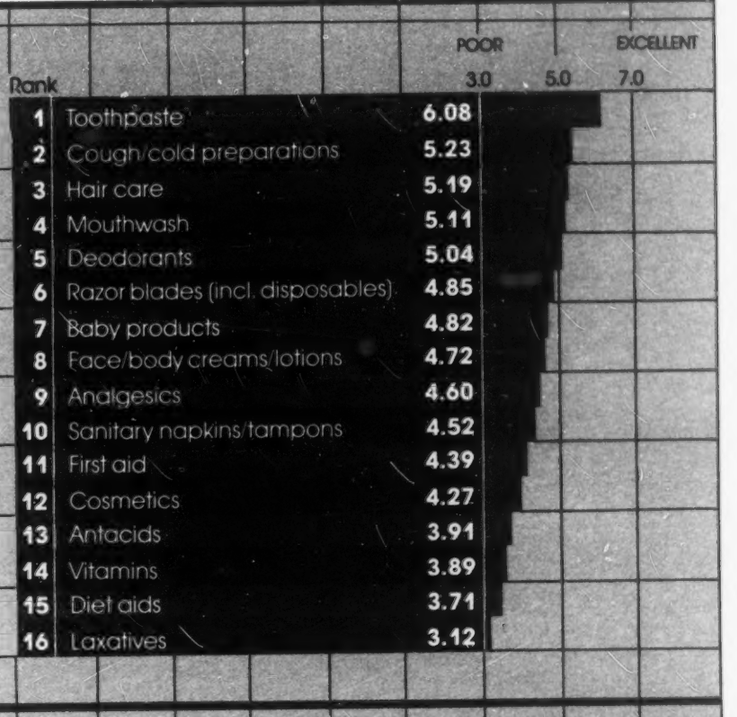
Respondents were asked to rank the profitability of the HBA items listed above, on a scale of one to seven, with seven being excellent. There are similarities between what products service merchandisers and grocery warehouses find profitable. Naturally, the products that service merchandisers stock are at the top of their list. Differences are found in what either group stocks. Deodorants, for example, are fairly profitable for service merchandisers, and less so for grocery warehouses, compared with other HBA items.

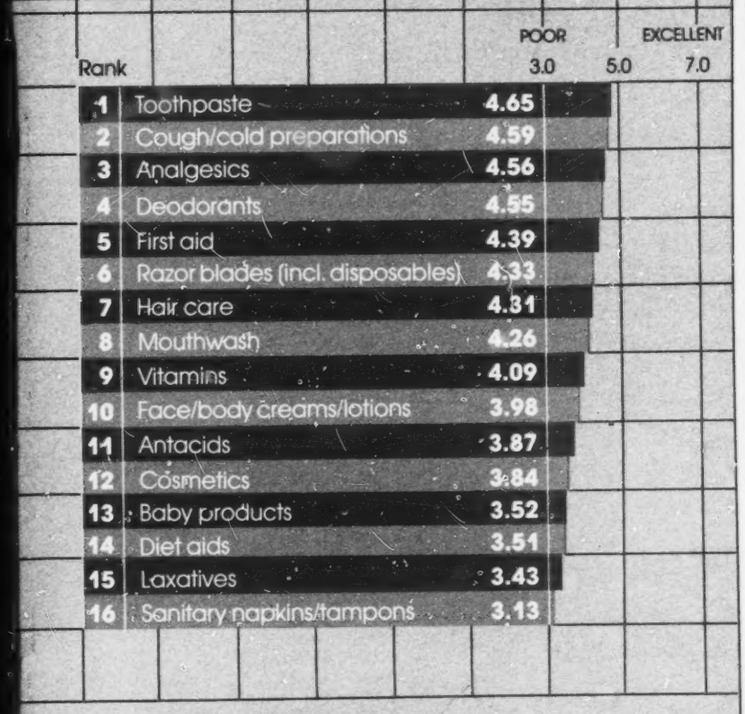
Ranks seem related between deals and displays. Between profitability and deals or displays, however, rankings are sometimes markedly reversed. Some high-profit items receive low deal rankings.

ADEQUACY OF DEALS AND ALLOWANCES

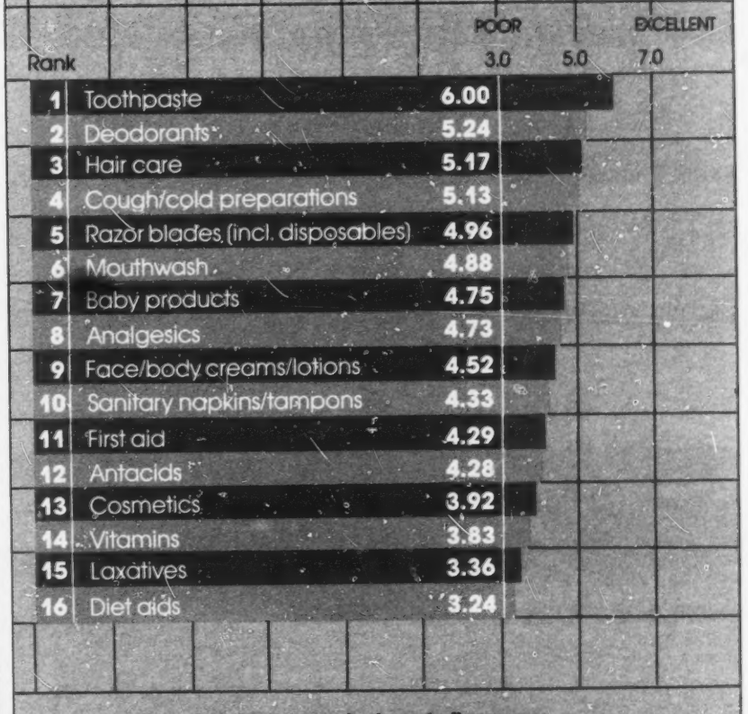


RESPONDS WELL TO SPECIAL DISPLAY





The adequacy of deals and allowances for HBA, compared with the products' gross margins, is interesting. Toothpaste, for example, ranked high on deals and allowances, and special displays has an 18.8 percent gross margin, according to the 1985 Consumer Expenditures Study. Cosmetics



ranked fairly low on deals and allowances, and display has a 39.6 percent gross margin. Diet aids have a 34.0 percent gross margin, but low rankings on special display and deals and allowances. Perhaps these figures show that a product has to buy its way in with allowances in order to get special display space to prove how they might do.

January HBA Food Store Volume Tops Strong Year-Ago Level by a Slim Margin

BY ALAN MILLER, JR.

Sales of cough and cold remedies were weak, which might be an indication that U.S. consumers were in better health at the beginning of the new year.

Last year, sales of health and beauty aids (HBA) were off to a flying start, reflecting an increase of 3.8 percent over the corresponding 1984 period. SAMI's initial 28-day reporting interval in 1986 gained just under 1 million units, or 0.4 percent. This rate of increase was lower than all SAMI product departments except frozen, which recorded a unit volume decline of -2.8.

In all 475 SAMI categories combined, the four-week increase for the interval that ended Jan. 31, 1986, was 1.6 percent, with the highest unit growth rates registered by refrigerated foods (+4.7 percent) and dry grocery:nonfoods (+2.5 percent). The four-week gain in the highest volume department—dry grocery:food—was 1.4 percent.

In the HBA arena, gains and losses were evenly split on both a product group and a product category basis. Among product groups, four had four-week gains, paced by skin care aids with a rise of 8.5 percent and shaving needs ahead 5.5 percent. Hair care needs were up 3.4 percent, and deodorants showed a gain rate of 0.9 percent. Two of the product group loss rates were less than 1 percent: baby needs (-0.8 percent) and oral hygiene (-0.3 percent). The highest decline was -2.7 percent among proprietary remedies.

Capsules okay this time

Twenty-four categories showed gains, and 26 had loss rates for the 28-day period. The most recent Tylenol poisonings did not occur until after the reporting period; otherwise, there might have been a higher loss rate among proprietary remedies, especially those in capsule form.

Except for suntan lotion and oil, which enjoyed an off-season spurt of 102.5 percent, the highest growth rate continues to be centered on the hair setting needs, which are still performing strongly (+44.1 percent). The sharpest decline percentage-wise was the 16.5 percent nosedive by cream deodorants. Home permanents kits also fell sharply, recording a decline of 15.8 percent.

The same three categories of baby needs that started off 1985 with weak sales repeated the downward trend in 1986. Baby powders and infant clothes had 10 percent losses, while the baby oils, cream and lotions category took a more modest slide (-1.1 percent). The nursing supplies category continued upward, achieving a 6.9 percent gain rate.

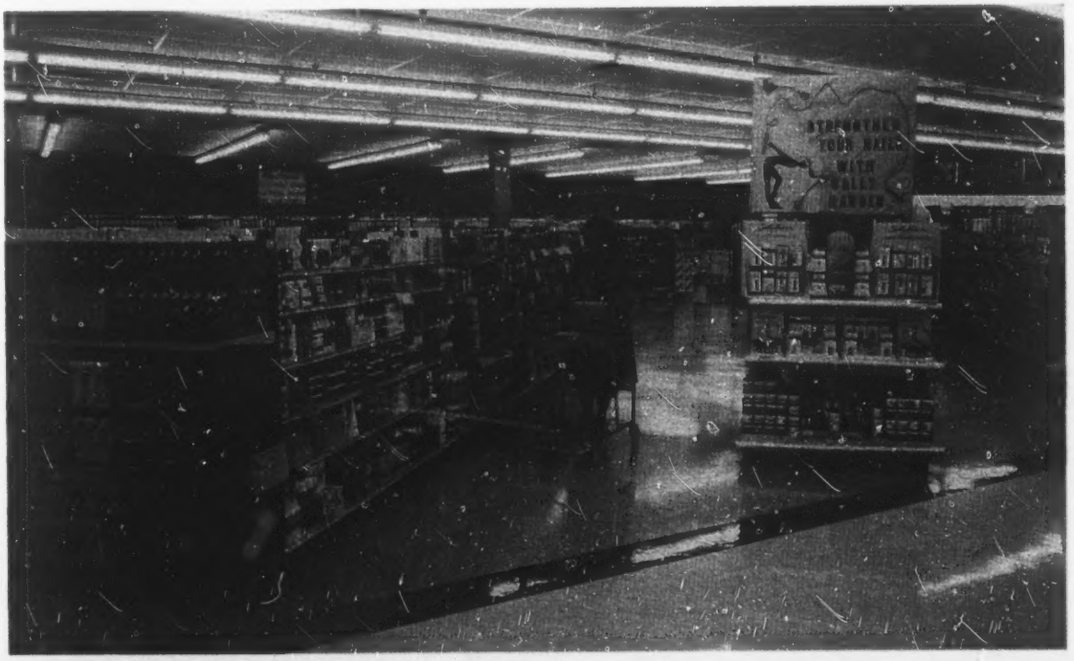
Sticks up

The 8.8 percent gain in the high-volume stick deodorant category was sufficient to carry the entire personal deodorant product group into the plus column. This gain rate was exceeded by that for foot deodorants and athlete's food remedies (+11.7 percent), which account for only a small portion (2.5 percent) of all total deodorant sales.

The strength of stick deodorants and antiperspirants was the primary reason for losses among spray deodorants (-4.8 percent) and roll-ons (-4.0 percent). A secondary explanation for the continuing downward trend of spray deodorants has been the failure of body sprays to gain loyal repeat customers.

Gains ranged between 1 and 2 percent for deodorant and talcum powders (+1.8 percent), feminine hygiene deodorants (+1.3 percent) and douches (+1.7 percent).

The first aid product group suffered a loss as a result of the 2.0 percent drop among first aid products (bandages, gauze, cotton swabs, etc.) that wiped out



HEALTH & BEAUTY AIDS: SAMI FOUR-WEEK FOOD STORE UNIT TRENDS VS. YEAR AGO

PRODUCT GROUP AND CATEGORY	% CHANGE VS. YEAR AGO 4 WEEKS ENDING 12/6/85	4 WEEKS ENDING 1/3/86	4 WEEKS ENDING 1/31/86
BABY NEEDS	**– 1.3%**	**+ 2.8%**	**– 0.8%**
Baby Powders	+ 3.8	+ 0.5	– 9.9
Baby Oils, Creams & Lotions	– 2.9	+ 7.3	– 1.1
Infant Clothes	– 11.6	– 8.2	– 10.0
Nursing Supplies	+ 1.0	+ 2.3	+ 6.9
DEODORANTS	**+ 2.5%**	**+ 2.4**	**+ 0.9%**
Sprays	– 3.7	– 3.9	– 4.8
Roll-Ons	– 7.6	– 2.6	– 4.0
Stick Deodorants & Pads	+ 15.5	+ 11.3	+ 8.8
Creams	– 13.7	– 13.5	– 16.5
Deodorants & Talcum Powders	+ 8.2	+ 9.1	+ 1.8
Feminine Hygiene Deodorants	– 10.2	– 4.2	+ 1.3
Foot Deodorants & Athlete's Foot Remedies	+ 1.7	+ 1.5	+ 11.7
Feminine Douches	+ 4.5	+ 4.0	+ 1.7
FIRST AID	**– 0.4%**	**+ 1.8%**	**– 1.2%**
Antiseptics	– 1.6	+ 0.4	+ 2.1
First Aid Products	– 0.1	+ 2.2	– 2.0
HAIR CARE NEEDS	**+ 3.7%**	**+ 5.3%**	**+ 3.4%**
Shampoos	+ 0.7	+ 1.9	– 0.9
Hair Sprays	+ 9.8	+ 10.8	+ 8.1
Hair Conditioning Rinses	– 0.1	+ 2.4	+ 1.2
Hair Setting Needs	+ 32.7	+ 46.7	+ 44.1
Home Permanent Kits	– 0.7	– 6.3	– 15.8
Hair Coloring	– 5.7	– 6.3	– 2.8
Hair Dressing Needs	+ 2.6	+ 2.8	+ 7.4
ORAL HYGIENE	**– 4.4%**	**– 3.1%**	**– 0.3%**
Toothpastes & Powders	– 5.3	– 2.3	+ 0.8
Mouthwashes	– 2.8	– 5.9	– 5.4
Breath Fresheners	– 13.1	– 13.2	– 4.8
Denture Cleaners	– 7.9	– 6.5	– 2.0
Denture Adhesives	– 7.6	– 4.8	– 4.8
Toothbrushes	+ 0.7	– 0.8	+ 3.6
PROPRIETARY REMEDIES	**– 3.4%**	**+ 1.7%**	**– 2.7%**
Antacids	+ 2.9	+ 3.5	+ 5.8
Internal Analgesics	– 3.3	– 2.3	– 2.9
External Analgesics	– 6.7	+ 4.8	– 0.8
Cold Tablets	– 2.3	+ 9.8	– 3.4
Nasal Sprays—Drops—Inhalers	– 8.8	– 3.8	– 6.2
Chest Rubs	– 10.8	+ 4.2	– 7.7
Cough Remedies	– 10.0	+ 0.2	– 10.3
Laxatives	– 0.9	– 1.9	– 5.9
Sleeping Aids	+ 7.8	+ 10.8	+ 11.2
Tranquilizers	– 10.9	– 10.6	– 14.9
Synthetic Vitamins	– 4.4	+ 1.3	– 0.9
Eye Care Products	+ 14.5	+ 11.1	+ 19.2
Appetite Suppressants	– 15.5	+ 7.0	+ 16.9
SHAVING NEEDS	**+ 1.4%**	**+ 3.1%**	**+ 5.5%**
Shaving Creams	+ 5.1	+ 4.7	+ 9.7
Pre-Shave Lotions	– 6.5	– 3.0	– 3.3
After-Shave Lotions	– 12.5	– 3.4	– 1.8
Razor Blades	+ 2.1	+ 3.7	+ 4.8
Razors & Blades	+ 10.4	+ 4.2	+ 1.0
SKIN CARE AIDS	**+ 0.8%**	**+ 22.3%**	**+ 8.5%**
Hand & Body Creams & Lotions	– 2.2	+ 20.4	+ 9.7
Facial Preparations	+ 20.5	+ 25.9	+ 9.0
Lip Care Products	– 2.0	+ 50.6	+ 17.0
Suntan Lotions & Oils	– 4.8	+ 3.5	+ 102.5
Cosmetic & Medicated Skin Aids	– 4.3	– 6.2	– 6.3
TOTAL ALL CATEGORIES	**– 1.1%**	**+ 2.6%**	**+ 0.4%**

the gain of 2.1 percent in the smaller volume first aid antiseptic category.

Hair care needs were in good demand overall, and the 3.4 percent gain for the product group was on top of a 5.2 percent increase in the corresponding year-ago period. However, in both the current and the year-earlier period, there were loss rates in the shampoo category, which accounts for almost half of the unit volume in the product group.

The current loss was less than 1 percent, however, or less than the 15.8 percent dip in home permanent kits or 2.8 percent for hair coloring items. Aside from the strong vitality among hair setting needs as hair styling mousses continue to forge ahead, hair sprays also contributed strong sales performance (+8.1 percent), along with hair dressing needs (+7.4 percent). Hair conditioning rinses were 1.2 percent ahead of the level a year ago, about the same growth rate as the 1.1 percent registered on a 12-week basis.

In January, the oral hygiene product categories recovered from their earlier sales weakness. In the preceding four-week period, all six categories showed loss rates. In the current period, gains were enjoyed among toothpastes and powders (+0.8 percent) and toothbrushes (+3.6 percent).

A decline in dentures

The loss rates among mouthwash (-5.4 percent), breath fresheners (-4.8 percent) and denture cleaners (-2.0 percent), although still in the loss column, were less pronounced than the declines registered in the preceding period. Denture adhesives (-4.8 percent) declined at the same rate as in the preceding period, but the decline was lower than the 5.7 percent drop seen over the 12-week interval.

SAMI tracks product movement in 13 categories of proprietary remedies. During the 28 days that ended Jan. 31, nine categories had loss rates, and only four showed sales improvement over a year ago. All of the categories associated with coughs, colds and flu were weak compared with last year's sales performance. It should be remembered, however, that January 1985 was a dynamic growth period for all of these allied categories, suggesting that consumers were in better shape in 1986 than early last year.

In addition to the four cold remedy categories, there was also a decline (-2.9 percent) in the related internal analgesics category, and a loss of 5.9 percent for laxatives and stool softeners. Synthetic vitamin movement in food stores was less than 1 percent behind levels a year ago.

Giving the go-ahead

The go-ahead categories in the proprietary remedy product group were eye care products (+19.2 percent), appetite suppressants (+16.9 percent) and sleeping aids (+11.2 percent), all with double-digit gain rates. Antacids rose 5.8 percent, a higher rate of gain than that in the 12-week period (4.1 percent), and on top of an increase of 2.4 percent last year in the January period.

The losses in the shaving needs product group befell the two lotion categories—pre-shave, down 3.3 percent, and after-shave, off 1.8 percent. Shaving creams moved forward 9.7 percent, but this strong performance was vis-a-vis a 10.7 percent decline last year, and the current unit total, although higher than a year ago, is below the 1984 level of nearly 5 million units.

Razor blade volume advanced 4.8 percent, and razor sets gained 1 percent. Disposables continue to account for a high proportion of the shaving item upsurge.

Healthy skin

The skin care aids product group had strong sales vitality, although not equal to the 22.3 percent upsurge of the final SAMI reporting in 1985. Disregarding the more than double volume for suntan products in the winter hiatus period, the best gain rates were in the lip care products (+17.0 percent), hand and body cream-lotions (+9.7 percent) and facial preparation (+9.0 percent) categories.

The increase for lip care products was on top of a gain of 9.7 percent in the corresponding year-ago period over 1984. The only loss was a third consecutive period decline for cosmetic and medicated skin aids (-6.3 percent).

Looking ahead to February sales results, two factors may have played a major role in the trending. In the aftermath of the Tylenol poisoning tragedy, there may well be repercussions in the proprietary remedy product group. Countering this, some improvement in the sales of cold and flu remedies may have resulted from a mild flu epidemic that hit many areas of the country during February. ■